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U.S. Environmental Protection Agency, Region 10

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# Clean Water

## State Revolving Fund

Washington Program Evaluation Report

State Fiscal Year 2016

September 2017





UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 10

1200 Sixth Avenue, Suite 900  
Seattle, WA 98101-3140

SEP 26 2017

OFFICE OF WATER AND  
WATERSHEDS

Ms. Heather Bartlett, Program Manager  
Water Quality Program  
Washington Department of Ecology  
P.O. Box 47600  
Olympia, Washington 98504-7600

Dear Ms. Bartlett:

Enclosed is the U.S. Environmental Protection Agency (EPA) Program Evaluation Report for the Washington Water Pollution Control Revolving Fund (Revolving Fund) for State Fiscal Year 2016. Our review found that the Washington Department of Ecology (Ecology) continues to maintain and improve an already well-run program.

Notably, fund utilization (aka pace of funding) is over one hundred percent and above the national average, green project reserve awards exceed the minimum required, and the Washington Revolving Fund consistently meets the EPA goal of incorporating sustainability into Additional Subsidy awards.

The onsite discussions and project file reviews demonstrated that Ecology is in compliance with all programmatic and technical requirements of the program evaluated this year, including additional subsidy in the form of principal forgiveness and environmental review for treatment works. Our analysis found that Ecology meets all of the financial requirements such as timely and expeditious use of funds, binding commitments, and proper cash draw transactions. All cash draw proportionality adjustments were independently identified and corrected by Ecology before the onsite review and are now in compliance. This year's program evaluation yielded no required or recommended actions.

The most significant challenge facing the Washington Revolving Fund program is securing enough state matching funds for the FFY 2017 capitalization grant. The state legislature adjourned without passing the Capital budget needed to provide the required match for the next state biennium. Until this budget is passed, Ecology cannot fund any more intended recipients on the state project priority list, except for increases to existing loans. The EPA will monitor the status of the Capital budget in regards to its impact on funding pace and on the EPA's ability to award subsequent capitalization grants.

We greatly appreciate the cooperation of Financial Section Manager, Jeff Nejedly, his CWSRF team and Ecology's Fiscal Office management and staff.

If you have any questions regarding the PER, please feel free to contact me at (206) 553-1755 or have your staff contact our EPA Washington CWSRF Coordinator, David Carcia at (206) 553-0890 or via email at [carcia.david@epa.gov](mailto:carcia.david@epa.gov).

Sincerely,



Michael Lidgard, Acting Director  
Office of Water and Watersheds

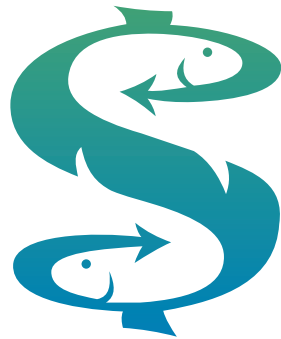
Enclosure

cc: Jeff Nejedly (email only)

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**WA SFY 2016 Final PER**  
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## EXECUTIVE SUMMARY

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This Program Evaluation Report (PER) presents the Environmental Protection Agency's (EPA) State Fiscal Year (SFY) 2016 evaluation of Washington's Clean Water State Revolving Fund (CWSRF or the Fund) administered by the Washington State Department of Ecology (Ecology). It includes our review methodology, information sources, a State program overview, and programmatic/financial highlights. This report contains no required or recommended actions for Ecology.

### PROGRAMMATIC HIGHLIGHTS

During SFY 2016, Ecology signed \$131<sup>1</sup> million into assistance agreements including, \$10.2<sup>2</sup> million of Green Project Reserve (GPR) eligible project costs, which is over the minimum GPR requirement of \$2.43<sup>3</sup> million, and provided \$1.29 million in principal forgiveness, which is within the maximum allowed for the year under review. Cumulatively, Washington committed \$1.66<sup>4</sup> billion out of a \$1.61<sup>5</sup> billion available, for a fund utilization rate of 103% through SFY 2016.

EPA found Washington's program to be in compliance with all programmatic requirements. This year's observations were based, in part, on EPA's evaluation of the following two project files:

- Kitsap County PW - Manchester Shoreline Sewer Facility, Loan (EL160619), and
- City of West Richland - Biosolids Processing Facility, Loan (EL150115).

Kitsap County PW received a \$3,870,843 loan for a sewer rehabilitation project designed to deliver 40% more energy efficiency. West Richland received \$1,746,100 for a GPR eligible biosolids facility. These projects provided improved water quality to a combined total of 15,336 residents.

### FINANCIAL HIGHLIGHTS

The Washington CWSRF program has performed well according to financial indicators established for the national program. The percentage of executed loans to funds available increased by 1% from 102% in SYF2015 to 103% in SFY 2016, remaining significantly above the national target of 95%. This demonstrates Washington's effectiveness at quickly obligating funds into new projects. Ecology's achieves this pace through advanced cash flow modeling.

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<sup>1</sup> National Information Management System (NIMS) line 100

<sup>2</sup> Clean Water Benefits Reporting Database (CBR) 5/5/2016 data report.

<sup>3</sup> EPA Final CWSRF FFY15 Allocation Table

<sup>4</sup> NIMS line 101

<sup>5</sup> NIMS line 283



Cash draw transaction testing was conducted on four Federal cash draws taken from EPA grants CS 530001-14 and CS 530001-15, ranging from \$114,440 to \$18,453,057. All costs were found to be eligible, except for a corrected overpayment described in the financial section below. Ecology implemented proper proportionality (83.33% Federal/16.67% State) for two of the draws. The other two transactions had different proportionalities: in one case it was the result of Ecology's correction of the abovementioned overpayment; in the second instance it was due to an underpayment of federal funds that was identified by staff and corrected in a subsequent disbursement. Both of these transactions are explained in the financial section below. No further action is required. Ecology has disbursed federal grants in a timely manner; thereby sustaining the goal of having all federal funds disbursed within two years of award.

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## INTRODUCTION

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The SFY 2016 PER was guided by EPA's "Annual Review Guidance of State Revolving Fund Programs", provided by the EPA Office of Water, December 2016. EPA relied upon information from the following sources:

- 2008 Operating Agreement between the EPA and Ecology governing the administration of Washington's CWSRF;
- All open EPA CWSRF capitalization grants awarded to Ecology;
- Washington's CWSRF SFY 2016 Intended Use Plan (IUP);
- The SFY 2016 Annual Report submitted by Ecology;
- The independent and Single Audit Act financial audit for SFY 2016 issued in June 6, 2017 and March 2017, respectively.
- Two project file reviews completed July 25-26, 2017
  - Kitsap County PW - Manchester Shoreline Sewer Facility, Loan (EL160619), project WQC-2016-KiCoPW-00037, managed by Ecology's Southwest Regional Office
  - City of West Richland - Biosolids Processing Facility, Loan (EL150115), WQC-2015-WeRiPW-00061, managed by the Eastern Regional Office.
- Records of financial transactions maintained by EPA and Ecology;
- The National Information Management System database updated by Ecology for annual CWSRF financial data;
- The Clean Water Benefits Reporting database updated by Ecology for project and loan specific data; and
- The SFY 2015 Program Evaluation Report (PER).

Ecology uploaded transaction testing documentation to the Ecology Administration of Grants and Loans (EAGL) electronic system. Follow up financial review was conducted offsite at EPA's Region 10 office in Seattle. Project file reviews were also conducted mostly through online EAGL access and follow up conducted from the EPA's Region 10 office. Some follow up items were reviewed onsite. Some project files were provided electronically while others were made available during the onsite visit in Lacey, WA. EPA's on-site review and discussions were conducted in Lacey, Washington July 25-26, 2017.

This PER includes selected program items including: 1) annual appropriation requirements, 2) summary results from the two project files reviewed, the financial and audit review, cash draw and disbursement transaction testing, and 3) national financial indicators. There are no required or recommended actions.

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#### STATE PROGRAM OVERVIEW

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The Financial Management Section in Ecology's Water Quality Program manages Washington's CWSRF (Fund) and has operated it as a direct loan program since receiving its first capitalization grant from EPA in September 1989. Through the end of SFY 2016, Ecology has received a total of \$702 million in EPA capitalization grants<sup>6</sup>, including an additional \$68.2 million of American Recovery and Reinvestment Act (ARRA) funds<sup>7</sup>. Total funds available to the program through the end of SFY 2016, including investment earnings, principal and interest repayments, was approximately \$1.61billion<sup>8</sup>. These grants were matched by the State with approximately \$132 million in capital contributions<sup>9</sup>. The Fund receives its match from biennial Washington State Legislature appropriations.

Ecology's sources and uses of annual funding are documented in the Intended Use Plan (IUP), which includes a ranked project priority list. Once a project in the IUP meets all SRF prerequisites, it can be funded. Lower ranked projects can be funded ahead of higher ranked projects that are not ready to proceed.

Ecology offers assistance to projects eligible under Sections 212, 319, and 320 of the Clean Water Act (CWA). Through SFY 2016, Ecology has cumulatively funded \$92.8 million of Section 319 Nonpoint Source assistance<sup>10</sup>. The Water Quality Program uses an integrated solicitation process, which allows project sponsors to submit a single application to apply for assistance from the Revolving Fund, State Centennial Program, and the State's CWA Section 319 Grant Program. The system is flexible enough to

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<sup>6</sup> National Information Management System (NIMS) line 71

<sup>7</sup> NIMS lines 55a

<sup>8</sup> NIMS line 283

<sup>9</sup> NIMS line 77

<sup>10</sup> NIMS lines 165

handle additional sources of funding that may become available, such as stormwater grant provisos in the biennial state appropriations.

During SFY 2016, Ecology signed twenty new assistance agreements for a total of \$131 million.<sup>11</sup>

The twenty projects funded in SFY 2016 were for various water quality improvement projects such as design, planning, or construction of waste water treatment facilities, riparian restoration, and water efficiency, benefiting a combined 1.49 million Washington residents<sup>12</sup>. Ecology provided \$81.7 million<sup>13</sup> this year for projects that addressed impaired waterbodies. Ecology awarded \$10.2 million<sup>14</sup> for project costs that were GPR eligible in SFY 2016, surpassing the minimum requirement of \$2,425,800. In addition, Ecology provided \$1,291,918<sup>15</sup> in principal forgiveness, which is within the range allowed by this year's grant condition.

EPA tracks the percent of assistance provided relative to the total amount of funds available. At the end of SFY 2016, approximately \$1.66 billion<sup>16</sup> was obligated out of \$1.61 billion<sup>17</sup> available, for a fund utilization rate of 103%. This is significantly better than the EPA's CWSRF 2016 strategic planning target of 95%, which measures the average funding pace across all SRF programs.

Ecology SRF financial assistance agreements include a one percent administrative charge applied to the remaining balance of loans that are in repayment. Washington still took the allowable four percent administrative costs set-aside for the FFY15 grant, but Ecology cash flow projections indicate that the state will be able to pay all administrative costs exclusively from the new charge starting in SFY 2017.

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#### UPDATE ON SFY 2015 ANNUAL REVIEW

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There were no required or recommended actions in the SFY 2015 PER.

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#### PROGRAM REVIEW

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EPA coordinates with Ecology to review IUPs, the CWSRF annual grant application, annual report, Clean Water Benefits Reporting System (CBR) data, and the Operating Agreement (as needed) as part of ongoing program oversight. Combined with the materials reviewed for this annual evaluation and staff interviews, EPA found the program to be in compliance with all requirements, except for the Operating Agreement

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<sup>11</sup> NIMS line 100

<sup>12</sup> According to the SFY 2016 Annual Report and CBR

<sup>13</sup> According to CBR, summary report generated

<sup>14</sup> According to CBR, summary report generated

<sup>15</sup> According to CBR

<sup>16</sup> NIMS line 137

<sup>17</sup> NIMS line 283

which Ecology plans to update. This was discussed onsite and Ecology agreed to provide a draft of an updated Operating Agreement by the end of the calendar year.

Since GPR and ASR requirements can change annually, this section also includes information related to the FFY 2015 annual appropriation requirements for additional subsidy and green project reserve.

#### FFY 2015 Green Project Reserve (GPR) and Additional Subsidy Appropriation (ASR) Requirements

##### ADDITIONAL SUBSIDIZATION

The Additional Subsidization Reserve (ASR) requirement for the CWSRF was authorized by the FFY 2015 through the Consolidated and Further Continuing Appropriations Act, 2015, P.L. 113-235 and included as a condition of the FFY 2015 capitalization grant. As listed in (Table 1), Ecology reported \$1,291,918<sup>18</sup> additional subsidization obligated in the form of principal forgiveness. This is within the allowable ASR range for the FFY 2015 grant. All ASR projects meet EPA's ASR sustainability policy as noted in Ecology's Annual Report.

The EPA capitalization grant also encourages states to prioritize additional subsidies for communities defined by the State as disadvantaged. Ecology applied this year's ASR to six applicants that met Ecology's hardship criteria. The two remaining ASR loans went to a project with GPR eligible components, as allowed by Washington State rules.

The national grant conditions further recommends that these subsidies be directed toward "sustainable" projects (as defined in the grant conditions) and require states to report on whether or not this recommendation was followed. Ecology reports that FFY 2015 principal forgiveness went to sustainable planning/design or GPR, thus meeting the sustainability grant condition, except for the Oak Harbor which received ASR because it qualified to receive hardship funding in the form of principal forgiveness.

The FFY 2015 grant requires Ecology to record each project receiving additional subsidy into CBR at least quarterly. EPA found that this CBR data was reported into CBR in a timely manner.

Ecology separately tracks additional subsidy disbursements. In SFY 2016, Ecology expended all principal forgiveness assigned to the FFY2010 grant. Most of the principal forgiveness assigned to the FFY2011 grant also was disbursed.

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<sup>18</sup> EPA Clean Water Benefits Reporting System (CBR),

**Table 1: FFY 2015 Project with Additional Subsidization as Principal Forgiveness**

<b>Agreement #</b>	<b>Recipient</b>	<b>Project Name</b>	<b>Total Amount</b>	<b>Principal Forgiveness</b>
WQC-2016-Carbon-00147	Carbonado, Town of	Carbonado Sewer System Replacement Design	\$920,000	460,000
WQC-2016-ChehPW-00013	Chehalis, City of- Public Works	Coal Creek Sewer Extension	\$30,000	\$15,000
WQC-2016-Craft-00376/ WQC-2016-TPCoHD-00100	Craft 3	On-site Sewage System Regional Loan Program	\$8,299,992	\$138,985
WQC-2016-LeavPW-00141	Leavenworth, city of - Public Works	Leavenworth General Sewer Plan / Wastewater Facility Plan (GSP/FP)	\$197,060	\$98,530
WQC-2016-LibWSD-00091	Liberty Lake Sewer and Water District	Water Reclamation Facility Upgrades, Phase 2	\$15,916,417	\$29,749
WQC-2016-Mattaw-00018	Mattawa, city of	Wastewater Facility Plan	\$120,000	\$60,000
WQC-2016-OakHar-00240	Oak Harbor, city of	City of Oak Harbor Wastewater Treatment Plant	\$16,295,465	\$463,154
WQC-2016-Wapato-00093	Wapato, city of	North Wapato Sewage Lift Station Replacement	\$302,300	\$26,500
<b>Total Principal Forgiveness</b>				<b>\$1,291,918</b>

**GREEN PROJECT RESERVE**

Green Project Reserve (GPR) requirements were authorized for the CWSRF for FFY 2015 through the Consolidated and Further Continuing Appropriations Act, 2015, P.L. 113-235 and included as a condition of the FFY 2015 capitalization grant. Ecology's responsibilities under GPR are to solicit and fund GPR projects, or components of projects, for not less than 10% of the capitalization grant amount. The four categories of GPR are green infrastructure, energy efficiency, water efficiency, and environmentally innovative projects. Ecology also must identify GPR projects in the IUP and indicate whether they are categorically eligible or will require a business case.

Ecology's Green Project Reserve target for the FFY 2015/SFY 2016 CWSRF grant was \$2,425,800. According to the Clean Water Benefits Reporting System, Ecology funded five project that included an estimated \$10,191,494 of GPR eligible costs. All GPR components funded this year were categorically eligible.

**Table 2: FFY 2015 Projects with Green Project Reserve Estimates**

<b>Agreement #</b>	<b>Application #</b>	<b>Recipient</b>	<b>Pop</b>	<b>Project Name</b>	<b>GPR Description</b>	<b>GPR Amount<sup>19</sup></b>
WQC-2015-KCoNRP-00002	EL150092/EF150093	King County - Natural Resources and Parks Department	13,070	Barton CSO Beach Project (Construction Phase)	Green Infrastructure 1.2-6 Comprehensive retrofit programs to keep wet weather discharges out of sewer systems using green infrastructure technologies and approaches.	\$822,507
WQC-2015-KitPHD-00157	EL150037	Kitsap Public Health District	417,540	Regional Clean Water Revolving Loan Program	Environmental Innovative 4.2-6 Decentralized wastewater treatment for deficient or failing OSS.	\$118,995
WQC-2015-SequPW-00131	EL150063	Sequim city of - Public Works Department	6,607	Water Reuse Facility Aerobic Digester Aeration Improvements	Energy Efficiency 3.3-2 project documents 40% energy savings.	\$200,000
WQC-2015-weRiPW-00061	EL150115	West Richland city of - Public Works Department	13,000	Biosolids Processing Facility	Energy Efficiency 3.2-2 Projects that achieve a 20% reduction in energy consumption. This project documents 42% savings.	\$750,000
WQC-2015-SkCoPD-00130	EL150041	Skagit County - Planning and Development Services	118,600	Skagit County Non-point Repair Fund and Edison LOSS Green Upgrades	Environmental Innovative 4.2-6 repair deficient or failing onsite wastewater systems.	\$8,299,992
<b>Total</b>						<b>\$10,191,494</b>

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### PROJECT REVIEW

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This section summarizes the project file reviews conducted for the SFY 2016 Ecology SRF program evaluation.

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<sup>19</sup> The four GPR categories are: Energy Efficiency (EE), Water Efficiency (WE), Environmentally Innovative (EI), and Green Infrastructure (GI).

## **KITSAP COUNTY PW - MANCHESTER SHORELINE SEWER FACILITY, LOAN (EL160619)**

### **PROJECT DESCRIPTION AND STATUS**

As described in CBR, Kitsap County PW (Loans # EL160619) received a \$3,870,843 twenty-year term assistance agreement to design and rehabilitation shoreline based pump stations and the gravity pipe along the beach that drains to the pump stations.

2015 Design work is finished and construction begins this year. Project completion is estimated to be December 2018.

### **ENVIRONMENTAL BENEFITS AND GREEN PROJECT RESERVE**

The project will improve water quality and protection of the following designated water uses/outcome: infrastructure improvement, and shellfish growth and harvesting. The project will benefit 2,335 residents.

## **CITY OF WEST RICHLAND - BIOSOLIDS PROCESSING FACILITY, LOAN (EL150115)**

### **PROJECT DESCRIPTION AND STATUS**

As described in CBR, City of West Richland (Loan #150115) received a \$1,746,100 twenty-year term assistance agreement to upgrade the biosolids management system at the City of West Richland Wastewater Treatment Plant by mechanically dewatering the solids. This project will include construction of a new building to house mechanical dewatering equipment, a new biosolids drying pad, and related piping and appurtenances.

### **ENVIRONMENTAL BENEFITS AND GREEN PROJECT RESERVE**

The project will improve water quality and protection of the following designated water uses/outcome: infrastructure improvement and groundwater protection. The project will benefit 13,000 residents. Ecology determined that \$1,606,100 of this project was categorically eligible for energy efficiency GPR, in accordance with EPA guidance.

### **ENVIRONMENTAL REVIEW**

The Clean Water Act (CWA) and EPA regulation 40 C.F.R. §35.3140(a) require environmental review for all projects that meet the definition of *treatment works*. After completing the environmental review of a project, Ecology issues an environmental determination with a 14 day public comment period. Once final, the determination is valid for five years, after which time it must be reevaluated to ensure continued eligibility for CWSRF funding. Upon completion of the reevaluation, the original environmental decision must be either reaffirmed or modified. All projects in Washington State are required to follow the Washington State Environmental Review (SEPA) process, which includes public notice and a comment period. EPA found that Ecology independently reviews the local SEPA determinations, as required, and issues concurrences that are documented in the project files.



Ecology provided sufficient project file documentation to show that both Kitsap County PW (Loans # EL160619) and City of West Richland (Loan #150115) are in compliance with CWSRF SERP and state SEPA environmental review requirements.

#### GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

State SRFs are required to use the generally accepted accounting principles (GAAP) or a state equivalent requirement. Washington State SRF requires all borrowers to use either GAAP as issued by the Governmental Accounting Standards Board (GASB), including standards related to the reporting of infrastructure assets, or the equivalent state standards under state law 43.09.200 RCW.<sup>20</sup>

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### FINANCIAL REVIEW

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This section documents EPA's review of Washington's financial management and oversight of the CWSRF and its borrowers. This section also includes information on audits of Ecology's CWSRF program, detailed results of EPA's cash draw transaction testing, and national financial indicators of the program's effectiveness. Throughout the course of the year and during the onsite visit, EPA reviews State accounting records, draft and audited financial statements, NIMS, borrowers' invoices and audits (as necessary) to conduct ongoing financial oversight.

Based on the reviewed materials and staff interviews, EPA found Washington's financial management to be in compliance with all requirements, except for one negative cash draw and two erroneous payments that were identified and corrected before EPA's review. All funds were disbursed from federal CWSRF capitalization grants within three years of award and consistent with the required split of 83.33% Federal and 16.67% State Match reimbursements to the Fund, except in the case of the above mentioned erroneous payments that have since been corrected.

The most significant challenge facing the program is the delay in the state Capital budget, which is the source of SRF state matching funds. Previously, the Washington State Legislature appropriated enough match for both SFY 2016 and SFY 2017, which ended June 30, 2017. All of those state match dollars has been expended. Ecology now must receive additional match appropriations (specifically from the Capital budget) before they can fund any more projects from the Washington SRF project priority list, except for increases to existing loans. EPA will monitor Ecology's state match status and its impact on Washington SRF funding pace and on EPA's ability to award subsequent capitalization grants.

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<sup>20</sup> Revised Code of Washington (RCW), Chapter [43.09.200](#) *Local Government Accounting – Uniform System of Accounting*. Ecology includes GAAP/state equivalency language into its loans, including the Kitsap County and West Richland loans reviewed for this year's onsite review.



## AUDITS

### INDEPENDENT FINANCIAL AUDIT

Ecology annually contracts with a private auditing firm to complete an Independent Auditor's Report on the Financial Statements and on Internal Control over Financial Reporting and on Compliance and Other Matters. The independent audit provides EPA, oversight agencies, and the public, confidence that SRF funds are disbursed quickly, accurately, and only for eligible costs. The SFY 2016 Independent Auditor's Report was issued March 6, 2017 by CliftonLarsonAllen (CLA).

The audit report concluded that the CWSRF's financial statements presented fairly, in all material respects, the respective financial position of Ecology's CWSRF as of June 30, 2016 and 2015; the respective changes in financial position and cash flows ended in accordance with accounting principles generally accepted in the US. As a result, CLA issued an unmodified (clean) opinion of the CWSRF's financial statements. The audit process also performed tests of compliance with certain provisions of various laws, regulations, contracts, and grant agreements that could affect the CWSRF financial statement amounts and/or fiscal operations. There was one finding regarding internal controls that Ecology agreed to correct. In their response to the audit, Ecology noted that this would be discussed at one of their Ecology executive management meetings. At the onsite review Ecology noted that the internal control issue was resolved by reinforcing payment request procedures with Fiscal staff to ensure they initial every document in a payment batch before processing the payment. No further action required. The results of this internal controls improvement still should be discussed at the next annual review.

### SINGLE AUDIT ACT/UNIFORM GRANTS GUIDANCE

The Single Audit Act (SAA), as amended, and more recently the Uniform Grants Guidance (UGG) require non-Federal entities that expend \$750,000 or more of Federal funds in a year to have a single audit conducted. Sources of Federal funds include, but are not limited to, SRF programs, health care, social services, infrastructure, highways, and education. In March 2017, the Office of Financial Management issued the statewide Single Audit for the State of Washington covering the fiscal year ending June 30, 2016.

Included in the Single Audit is a report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. In the SFY 2016 statewide single audit, the CWSRF was not identified as a major program. The State Auditor's issued an unmodified opinion, and noted that the State complied, in all materials respects, with the types of compliance requirements that could have a direct and material effect. Though there were several State Agencies and Programs with findings and questioned costs, there were none for the CWSRF.

## **CASH DRAW TRANSACTION TESTING**

An important part of the annual review process is checking federal capitalization grant cash draw transactions and loan disbursement documentation. In response to the Improper Payments Elimination and Recovery Act, the Office of Management and Budget (OMB), through the EPA Office of the Chief Financial Officer (OCFO), directed that the CWSRF be subject to a random selection of transactions to develop a national estimate of improper payments from this program.

During the SFY 2016 annual review, EPA looked at four cash draws from the federal capitalization grants and the associated project loan disbursements; one of these draws was selected by EPA Region 10 and three were assigned by OCFO. The Financial Management Section provided borrower payment requests and all supporting invoices. Ecology's Fiscal Department provided accounting records for EPA to evaluate the procedures for federal grant cash draws, state match deposits, and disbursements to borrowers from the Washington SRF (Fund 727).

EPA reviewed the following four SFY 2016 cash draws from EPA grants CS 530001-14 and CS 530001-15:

### **December 21, 2015 (CS 530001-14) – Federal Cash Draw \$2,985,148; State Match \$597,171.94 (OCFO assigned).**

- \$650,734.20 for Deer Park, WA Wastewater Storage Lagoons #1, #2 and #3 Construction Upgrade (Loan EL150072, Payment #11).
- \$80,515.26 for Skagit County Non-point Repair Fund and Edison LOSS Green Upgrades (Loan 15004, Payment Request #3)
- \$16,918.18 Sprague - General Sewer Plan (Loan WQC-2015-Sprague-00127 (EL150089-EF150090), Payment #5).
- \$11,061.30 Toppenish - Engineering Evaluation/General Sewer Plan (WQC-2015-Toppen-00146 EL150107-EF150108)
- \$17,067.62 City of Yelm Stormwater Comprehensive Plan WQC-2015-YelmPW-00040 (EL150105)
- \$2,806,023.38 City of Oak Harbor Wastewater Outfall Project/City of Oak Harbor Wastewater Treatment Plant, 11/5/15, Payment Request #2; 12/2/15, Payment Request #3.

### **January 13, 2016 (CS 530001-14) – Federal Cash Draw \$3,136,260.00; State Match \$627,420.55 (OCFO assigned).**

- \$3,769,827 for the Fremont Siphon Replacement (Loan EL150072, Payment #1).
- (\$30,813) federal + (\$6,146.45) state dollars were shorted from eligible costs to correct a previous erroneous payment caused by a duplicate

expenditure (see improper payments section). This is possible because Ecology pays all expenditures from the SRF and then reimburses the Fund using the correct fed/state proportionality.

**February 4, 2016 (CS 530001-15) – Federal Cash Draw \$18,453,057; State Match \$3,691,494.83 (OCFO assigned).**

- \$251,162.31 Squalicum Creek Reroute Water Quality and Biotic Improvements Phase 1- (Loan L1300017/L13S0017, Payment request #2)
- \$55,431.42 Squalicum Creek Reroute Water Quality and Biotic Improvements (Phase 2) - (Loan L1400010/L14S0010, Payment #1)
- \$21,837,958.10 Chambers Creek Reg. Wastewater Treatment Plant Expansion (Loan L1400020)

**May 11, 2016 (CS 530001-15) – Federal Cash Draw \$114,440; State Match \$28,895.17.**

- Admin Costs for March April 2016: Payroll, training, travel, indirect costs, and computer/informational services

All expenditures for the transactions selected/reviewed were found to be eligible for CWSRF funding. Each cash draw had consistent documentation and accounting records. EPA found that the files were organized and contained support documentation. Ecology provided all requested follow up materials in a timely manner.

The federal cash draws listed above reimbursed the Washington SRF (Fund 727) for the federal portion of eligible expenditures. Ecology first disburses directly to the borrower using repayment money in the Fund. Then the state reimburses its own SRF (Fund 727) for those eligible expenses, using 83.33% from Federal grant dollars and 16.67% from state match dollars, which comes from Washington State biennium appropriations. State match was deposited into the Fund in a lump sum on or before the date of the federal cash draws, in accordance with EPA guidance.

#### **ERRONEOUS PAYMENT**

EPA found two erroneous payments. One of them occurred when Ecology made a duplicate payment of \$30,813.00 as part of federal cash drawn on 10/23/2015 from capitalization grant CS53000113. The total federal portion for this transaction was \$424,022.00. The Town of Rockford (Loan # L1400001, Payment Request #13) was eligible to be reimbursed for \$30,813.00 in federal funds. However, Ecology had already reimbursed the fund for this Town of Rockford expense, making this particular \$30,813.00 reimbursement an overpayment/duplicate payment. Ecology identified the issue and resolved it in a timely manner by withholding an equal amount from a subsequent eligible expenditure reimbursement for the Fremont Siphon Replacement project. (See January 13, 2016 cash draw for \$3,136,260.00 above). Since this happened, Ecology had an independent audit conducted (see Audit section) and has already taken

action to address the internal controls finding. If the internal controls improvement already implemented to address the independent audit finding also corrects the issue that led to this erroneous payment, then no further action is required. Otherwise, Ecology should adjust its internal controls to ensure they include procedures to prevent this type of erroneous payment from happening again. Ecology and EPA should discuss the results of these internal controls improvements at the next annual review.

The other erroneous payment is related to the administrative transaction tested this year. In this instance, Ecology underpaid the federal funds draw (#1462) by \$30,001.16. Ecology identified and corrected this in a timely manner by drawing down \$30,001.16 additional federal dollars from a subsequent draw (#1464). Given that Ecology is addressing internal controls in accordance with the independent audit and reviewing them in regards to payment practices, no further action is required.

### **NEGATIVE DRAW**

In accordance with EPA guidance, we are required to note any negative draws from the year under review. CWSRF capitalization grant CS53000115 had one negative draw on 3/1/2015 in the amount of (\$2,388,193.00). In this case, the funds had originally been drawn to provide the federal dollar reimbursement of the fund, but Ecology returned the money to the grant when they run out of state match. This was discussed at the onsite review. Ecology said they will switch to expending 100% of the SRF state match first, followed by 100% of the federal SRF grant dollars, as allowed by EPA guidance. This approach should significantly streamline the implementation of proportionality. Ecology also plans to review its approach to tracking state match to ensure all state match is spent before drawing federal funds. We will discuss the results of this proportionality option at the next annual review.

### **FINANCIAL INDICATORS**

The Washington CWSRF program has performed well according to financial indicators established for the program nationally. Table 3 provides a two-year comparison of financial indicators by which state CWSRF programs are evaluated<sup>21</sup>. Ecology further improved the first three indicators: return on investment (Indicator #1), fund utilization rate or “pace of funding (Indicator #2), and disbursement rate (Indicator #3). Of these, fund utilization performance, Indicator #2 (103%), is especially noteworthy as this is the second consecutive year that Ecology has maintained funding pace above 100%. The state uses careful cash flow modeling to meet this level of demand for clean water funding.

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<sup>21</sup> The SFY 2015 data in CWNIMS may be adjusted during SFY 2016 end-of-year reporting and may affect the results of these indicators.

**Table 3: Financial Indicators**

<b><i>Financial Indicators for 2015 and 2016</i></b>				
<i>Description</i>	<i>Washington SFY 2015<sup>22</sup></i>	<i>Washington SFY 2016<sup>23</sup></i>	<i>Regional Average<sup>24</sup> for SFY 2016</i>	<i>National Average<sup>25</sup> for SFY 2016</i>
<b># 1- Return on Federal Investment</b> - Shows the amount invested in water quality beneficial projects for each federal dollar invested	200%	<b>223%</b>	244%	189%
<b># 2-Percentage of Executed Loans to Funds Available For Loans</b> - Shows the amount of signed loan agreements compared to the amount of funds available for loans	102%	<b>103%</b>	116%	93%
<b># 3-Percentage of Funds Disbursed to Executed Loans</b> - Shows the amount of funds actually disbursed compared to the amount of signed loan agreements	81%	<b>85%</b>	111%	84%
<b># 4-Benefits of Leveraging</b> (generating additional SRF funds by issuing bonds)	N/A	N/A	N/A	N/A
<b># 5-Perpetuity of Fund</b> - Demonstrates whether the program is maintaining its contributed capital. positive result indicates the Program is maintaining its capital base	\$211.0M	<b>\$223.1M</b>	N/A	N/A

<sup>22</sup> The first three indicators are cumulative from program inception thru SFY 2015. Data from 2016 CWNIMS

<sup>23</sup> The first three indicators are cumulative from program inception thru SFY 2016. Data from 2016 CWNIMS

<sup>24</sup> Regional Average is for Alaska, Idaho, Oregon, and Washington. Data from 2016 CWNIMS

<sup>25</sup> National Average is for all US states that do not leverage their loan program. Data from 2016 CWNIMS.

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## CONCLUSION

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EPA found the Washington SRF program to be in compliance with all federal and environmental requirements. The program is well managed and effectively implemented. Highlights include the following: 1) Washington consistently awards over the minimum required green project reserve by effective outreach and careful review of applications to ensure all projects that have green elements are credited; and 2) fund utilization rate continues to remain above the national average. The state also plans to streamline implementation of federal/state funds proportionality by expending all state match first, followed by drawing down all federal dollars.

The most significant challenge facing the program is state match for the FFY 2017 capitalization grant. The state legislature adjourned without passing a Capital budget, which contains the required SRF match for the next state biennium. Until this budget is passed, Ecology cannot fund any more intended recipients on the state project priority list, except for increases to existing loans. EPA will monitor the status of the Capital budget in regards to its impact on funding pace and on EPA's ability to award subsequent capitalization grants.

In summary, Washington consistently funds quality clean water projects that deliver significant environmental benefits throughout the state. This success is made possible by dedicated Ecology staff and management who ensure projects are properly ranked, published in the Intended Use Plan, quickly funded, and well managed through the life of the assistance agreements. EPA appreciates all of Ecology's excellent work and especially the efforts to strengthen and improve Washington's SRF program.